

**The Corporation of the City of Kawartha Lakes**  
**Council Report**

**Report Number HS2017-007**

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**Date:** October 24, 2017  
**Time:** 2:00 p.m.  
**Place:** Council Chambers

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**Ward Community Identifier:** All

**Subject:** Affordable Housing – Office Space Project Update

**Author Name and Title:** Carolyn Daynes, Treasurer  
Rod Sutherland, Director of Human Services

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**Recommendation(s):**

**RESOLVED THAT** Report HS2017-007, **Affordable Housing – Office Space Project Update**, be received; and

**THAT** the budget for capital project BP1705 (Office Space and Affordable Housing) be increased to \$12,300,000 and refinanced as follows: (i) \$3,600,000 in various housing-related grants, (ii) \$1,900,000 in debenture to be repaid by rental revenue generated by the affordable housing portion of the building and (iii) \$6,800,000 in debenture to be repaid by lease cost avoidance and revenue generated by the office portion of the building;

**THAT** the debenture financing of capital project BP1705 (Office Space and Affordable Housing) be increased to \$8.7 million in total and be maintained and reported on separately from other debt until it is retired;

**THAT** the City Treasurer be authorized to refinance capital project BP1705 (Office Space and Affordable Housing) to reduce the reliance on debenture financing in the event the project receives additional grant or other external financing; and

**THAT** capital project BP1705 (Office Space and Affordable Housing) be designated a multi-year capital project with approval for 2017-2019, inclusive; and

**Department Head:** \_\_\_\_\_

**Financial/Legal/HR/Other:** \_\_\_\_\_

**Chief Administrative Officer:** \_\_\_\_\_

**THAT** the application for a grant and loan under the Green Municipal Fund of the Federation of Canadian Municipalities for Capital Project BP1705 be endorsed;  
and

**THAT** an application for a grant under the Municipal Green House Gas (GHG) Challenge Fund for Capital Project BP1705 be endorsed.

### **Background:**

In 2016 Council approved the design and development of a capital project to build office space and affordable housing at the north-east corner of Lindsay Street North and Queen Street in Lindsay. Capital Project BP1705 was approved in the 2017 City Budget at \$8M, with \$2.7M coming from grants and \$5.3M through debenture.

The project was designed as a joint project with the Kawartha Lakes Haliburton Housing Corporation (KLHHC) as the operator of the expected 24 housing units. The grant funding associated with the budget is flowed through the KLHHC. The office space is primarily to house the City's Human Services Department.

The financial model for the building is based on the portion of the building funded through debenture being cost neutral over the repayment period. The Corporate revenue realized for the office space paid by Human Services, and the housing rental revenue realized by the KLHHC, will cover the debenture.

Chamberlain Architect Services Limited was selected for the original design and also as Construction Manager for the actual construction of the building. Under this approach, the Construction Manager acts on behalf of the City through the process but the City maintains authority over the purchasing processes and contracts with individual trades.

### **Rationale:**

Work on the building site began earlier in 2017 with site remediation. The site is a former railway yard and over 2,000 tonnes of contaminated soil was removed as part of the clean-up.

Construction tenders were issued starting in the summer of 2017. The tendering process has been challenging to date. The first round of tenders resulted in very few submissions and for some aspects of the build, no submissions were received.

In conjunction with the Construction Manager, City Purchasing staff continued to solicit and receive bids to move the project forward.

To date, contracts have been awarded for most aspects of construction with the exception of interior finishing. While the issuing of contracts has taken longer

than anticipated and delayed the start of construction, the target of completing the housing units by the end of 2018 is achievable. The deadline for completion of the housing units is a requirement of the housing funding under the Social Investment Fund. The full completion of the office space does not impact any of the grants so may be slightly delayed if necessary to focus on completion of the housing units.

Further tenders will be issued in the coming weeks and months for the remaining components.

The 2017 Capital Budget for this project (BP1705) was developed based on initial estimates from the design architects and anticipated grants at that time. The financing model combining the grants and debenture was, and remains, a key component of the project. The grants are allocated solely toward the housing units as a condition of the funding while a portion of the debenture will be repaid by rental income received by the KLHCC with the remaining debenture repaid by lease cost avoidance and revenue generated by the office portion of the building.

The original budget estimate for the entire project is \$8M. Based on actual bids and contracts for construction, the actual cost of the project is now estimated at approximately \$12.3M. As some tenders are still outstanding, the estimate is based on anticipated costs.

The primary cost drivers have been market conditions and demand. With the volume of development in the region, tender bids have been much higher than originally anticipated. Where possible and permitted, there have been adjustments made in the scope of work and materials to reduce costs; however the overall budget remains higher than originally estimated.

The financing model for the project, a combination of grants and debenture, remains viable to maintain self-sustainability. Based on the ability to secure additional housing grants, the KLHCC will now be able to flow grant funding totaling up to \$3.6M and cover the debenture up to \$1.9M. The capital funding allocation under Home for Good, announced by the Ministry of Housing in September, provides \$600,000 that is being allocated to this project. Further details on the Home for Good funding are provided in Council Report HH2017-003, dated October 24, 2017.

Table 1 below identifies the total Federal/Provincial funding allocated to the housing units. This is the maximum grant level that can be allocated, representing a maximum of \$150,000/unit.

**Table 1: Federal and Provincial funding to Lindsay St. North Project**

<b>Program</b>	<b>Funding Amount</b>
Year 3 (2016-17) Investment in Affordable Housing 2014 Extension (IAHE)	\$517,759
Year 1 (2016-17) 2016 Social Infrastructure Fund (SIF)	\$2,070,000
Year 3 (2018-19) 2016 Social Infrastructure Fund (SIF)	\$412,241
Year 1 (2017-18) Home For Good	\$600,000
<b>Total Grant Funding</b>	<b>\$3,600,000</b>

The funding in Table 1 can only be attributed to the construction of the housing units, not the office space. This overall budget level can be sustained, without direct tax support funding, through the operation of 24 units at affordable rates, over a period of 25 years (based on estimated debenture rate of 3.35%).

With up to \$5.5M of the total project funding coming from the Housing allocations above (\$3.6M grants, \$1.9M debenture) the balance of the building construction, that being \$6.8M for the office space, can be financed through a debenture that is repaid from leasing cost avoidances and revenues.

Based on the increased gross budget, the debenture and repayment period will be lengthened to 30 years to maintain the self-financing model. A physical asset such as a building can readily and realistically be financed over a longer period than originally envisioned.

An application has also been submitted to the Federation of Canadian Municipalities (FCM) under the Green Municipal Fund (GMF). The building design is targeting a net zero energy use through the inclusion of energy efficiencies including a solar roof system. If approved, the City could secure a low interest loan of up to \$5M in addition to a grant of up to approximately \$600,000. The loan would be managed similar to the debenture while a grant would reduce the overall debenture requirement. A decision from FCM is not expected before February 2018. In support of the GMF application, the FCM has requested a specific Council resolution in support of the grant and loan application. This has been incorporated in the recommended resolution for this report.

In recent weeks, additional funding opportunities have been identified that may be appropriate for consideration in support of this project. The Municipal Green House Gases (GHG) Challenge Fund is available to municipalities and can provide a grant of up to \$10M per eligible project. The application deadline is November 14, 2017. Staff will investigate this fund further to determine if this project may be eligible. Further information will be required to determine the

ability to combine this funding with other sources prior to the submission of an application; however, if there is the potential to offset costs and support the project, an application will be made. Due to the short lead time, staff have included a resolution in support of an application to the GHG Challenge Fund for this project. Should an application be successful, the revised financing requirements for the project will be reported to Council.

**Other Alternatives Considered:**

Consideration could be given to adding funding for the project in the 2018 tax supported Capital Budget instead of increasing the debenture level. Although this would reduce the need to temporarily increase the debt limit, the long term cost would be higher. The debenture repayment through the proposed leasing cost avoidance and revenues covers all project costs making it the preferred and recommended approach.

**Financial/Operation Impacts:**

With additional grant funding and an extension of the debenture repayment period, the \$4.3M increase in capital cost anticipated for the Human Services Building can be absorbed so as to maintain the self-financing model for the project. Thus, the project will continue without placing added pressure onto the tax levy or capital reserve.

The total debenture that will be used for financing has now increased from the \$5.3 Million, as originally estimated, to \$8.7 Million, using more updated costing information. The Housing Corporation will fund \$1.9 Million of the total debenture by offsetting rental income in the housing units in the building. This approximates to \$130,000 in debenture principle and interest payments annually. The additional \$6.8 Million in debenture payments will be funded by the tax levy budget as follows:

Annual Principle and Interest on \$6.8M debenture	\$500,000
Human Services Administration grant	(\$130,000)
Rent for Human Services recorded as revenue in the City Tax levy Budget	(\$260,000)
Net Tax Levy Impact – With Building	\$110,000
Former Tax Levy Impact	\$100,000
Net Increase in Tax Levy	\$10,000

Please note that these are approximate projections as the rental income between the City and Human Services has not been finalized.

This increase in debenture will not affect the debt limit as this keeps the level under the debt limit. In addition it will continue to decline as the debenture is paid off, similar to the previous Council motion on the original \$5.3Million.

The project was always intended to span 2017 and 2018, with construction starting in 2017 and complete by the end of 2018. The change to specifically designate it as a multi-year project means that it does not require an extension as part of the 2017 Capital Close Report that is due after June 30, 2018 for projects that are not complete by that date.

### **Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:**

This capital project relates directly to the City's Strategic Goal #2 of An Exceptional Quality of Life: Increase the Supply of Affordable Housing and the City's Asset Management Plan.

### **Consultations:**

Manager of Corporate Assets  
Manager of Financial Services  
Buyer, Purchasing Division  
Manager of Housing

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**Department Head:** Rod Sutherland